

THE NEXT GENERATION OF TRUST

In China, Technology Is Closely Tied to Trust

Trust is essential in the world of finance, where well-functioning markets are necessary to create value, and in investment services, where experts work to safeguard and grow the financial wealth of their clients. In this, the third CFA Institute investor trust study, we look at the trends in investor trust and provide recommendations for investment practitioners on how to improve trust with clients. We find that the nature of trust is changing because of a new generation of investors and a new generation of investing tools. This report outlines how individual investors in China compare to those globally.



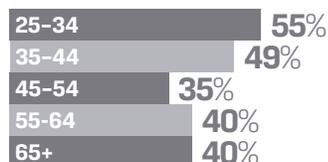
Most Chinese Investors are Trusting of Financial Services



Percentage of Chinese investors that "completely trust or trust" the financial services sector

Investors in China tend to be younger than those in many other countries. This may partially explain higher trust levels, as younger investors globally are also more trusting of financial services.

TRUST IN FINANCIAL SERVICES BY AGE



Chinese investors who believe that they have a fair opportunity to profit in the capital markets



Chinese Investors Value Professional Advice

But they are divided on how trust is given
Only 37% of Chinese investors are very confident of their investment decision making ability, which may explain why they prefer to invest with the help of financial advisers.

65%

of Chinese investors work with a financial adviser vs. 54% of investors globally. However, 86% of those relationships were made in the last 6 years.



Trust and the Client Life Cycle

HOW INVESTORS DETERMINE TRUSTWORTHINESS

Assume they are trustworthy unless proven otherwise



Once trust is proven, the benefit of the doubt is given



Trust must be constantly earned and maintained over time



GREATEST INVESTOR CONCERNS

Hiring an unscrupulous Financial Adviser



My financial adviser making recommendations that result in losses



Chinese investors are also concerned that advisers may not only be concerned with client outcomes. Only 29% of Chinese investors believe that their advisers always put their interests first compared with 35% of investors globally.

This might have some investors turning to friends and family or other sources for advice.

MOST TRUSTED SOURCE OF INVESTMENT ADVICE

Primary Adviser



Friends and Family



Investment Newsletters



Chinese investors expect advisers to have all the answers. If a financial adviser answers, "I Don't Know" to an investment question, 60% of Chinese investors would lose their trust in them.

Trust and ethics are important, but so are returns

Trust continues to be the most important factor throughout the client life cycle. In the five years we have been conducting this study, on a global basis trust has consistently been the greatest determinant in selecting a financial adviser by almost a 2:1 margin over investment performance. This is not necessarily true in China though.

MOST IMPORTANT ATTRIBUTE WHEN HIRING A FINANCIAL ADVISER

Trusted to act in my best interest



Commitment to ethical conduct



Ability to achieve high returns



Trust can be conveyed through people and through a firm's reputation or brand. When thinking about an investment firm to work with 78% of Chinese investors, far more than any other country surveyed, would prefer *A brand I can trust* as opposed to *People I can count on*.

Technology is the number one reason Chinese investors would leave an investment firm.

REASONS CHINESE INVESTORS WOULD LEAVE THEIR INVESTMENT FIRM

Data/Confidentiality Breach



Lack of communication/Responsiveness



Underperformance



Insufficient technology for my needs



Navigating Uncertainty

Most Chinese investors fear a financial crisis

Trust is tested in times of crisis, and advisers should be aware of whether their clients fear a crisis and market volatility. China's retail investors fear an impending crisis at the same level as investors globally.

INVESTORS WHO EXPECT A FINANCIAL CRISIS IN THE NEXT THREE YEARS



But Chinese investors have very different reasons for why it may occur

POSSIBLE SOURCES OF NEXT FINANCIAL CRISIS

Housing Bubble/Mortgage Crisis



Tech Stock Bubble



National/Global Politics



Cryptocurrency Bubble



Those with advisers, however, also believe that their advisers are well prepared to handle a crisis.

60%

of Chinese investors believe their advisers are well or very well prepared to handle the next crisis, compared with 55% of investors globally.



Technology Increases Trust

Technology is a game changer for financial services firms, and the best firms differentiate themselves through effective use of technology.

Investors of every age are using technology more.



Percentage of investors that say in three years it will be more important to have technology tools to execute their own strategy rather than human advice



This is especially true among younger investors.

While this may seem to devalue the need for a human adviser, use of technology by investment firms increases trust. Tech may have an even greater impact on trust in China since investors place a higher value on a firm's technology solutions than investors globally. For investors with a financial adviser, 72% say increased use of technology has made them trust their adviser more, while 90% say they are pleased with amount of technology tools currently provided.

Unlike investors globally, Chinese investors are also trusting of robo-advisers

59% of Chinese investors trust the robo-adviser industry, versus just 22% of investors globally. When asked if they were more likely to trust recommendations from a human or a robo-adviser, most global investors preferred humans significantly, Chinese investors are most likely to trust both equally (43% versus 21% globally).

THE BUILDING BLOCKS OF TRUST

The CFA Institute Trust Equation outlines the building blocks of trust. Trust is tied to value and together they are a function of credibility and professionalism.



Credibility, which provides confidence that the investment professional or organization is qualified to provide the required service, encompasses experience, reputation, and credentials, and is closely linked to brand. Trust in the industry requires that regulators and the public view it as bringing value to society.

CREDENTIALS



Investors that believe it is important that investment professionals have credentials from respected industry organizations

TRACK RECORD



Investors that believe it is important that investment professionals generate returns similar to or better than a target benchmark



Investors that believe it is important that fees that reflect the value they get from the relationship

BRAND



Investors that prefer a "Brand I Can Trust" over "People I Can Count On"

VOLUNTARY CODE OF CONDUCT



Investors that would trust an adviser more if he or she adhered to a voluntary code of conduct

Professionalism is harder to quantify, but includes the trust-building elements of competency and values such as empathy, transparency, honesty, and alignment of interests.

COMPETENCY



Investors that would be more trusting of investment firms that promote ongoing professional development

VALUES



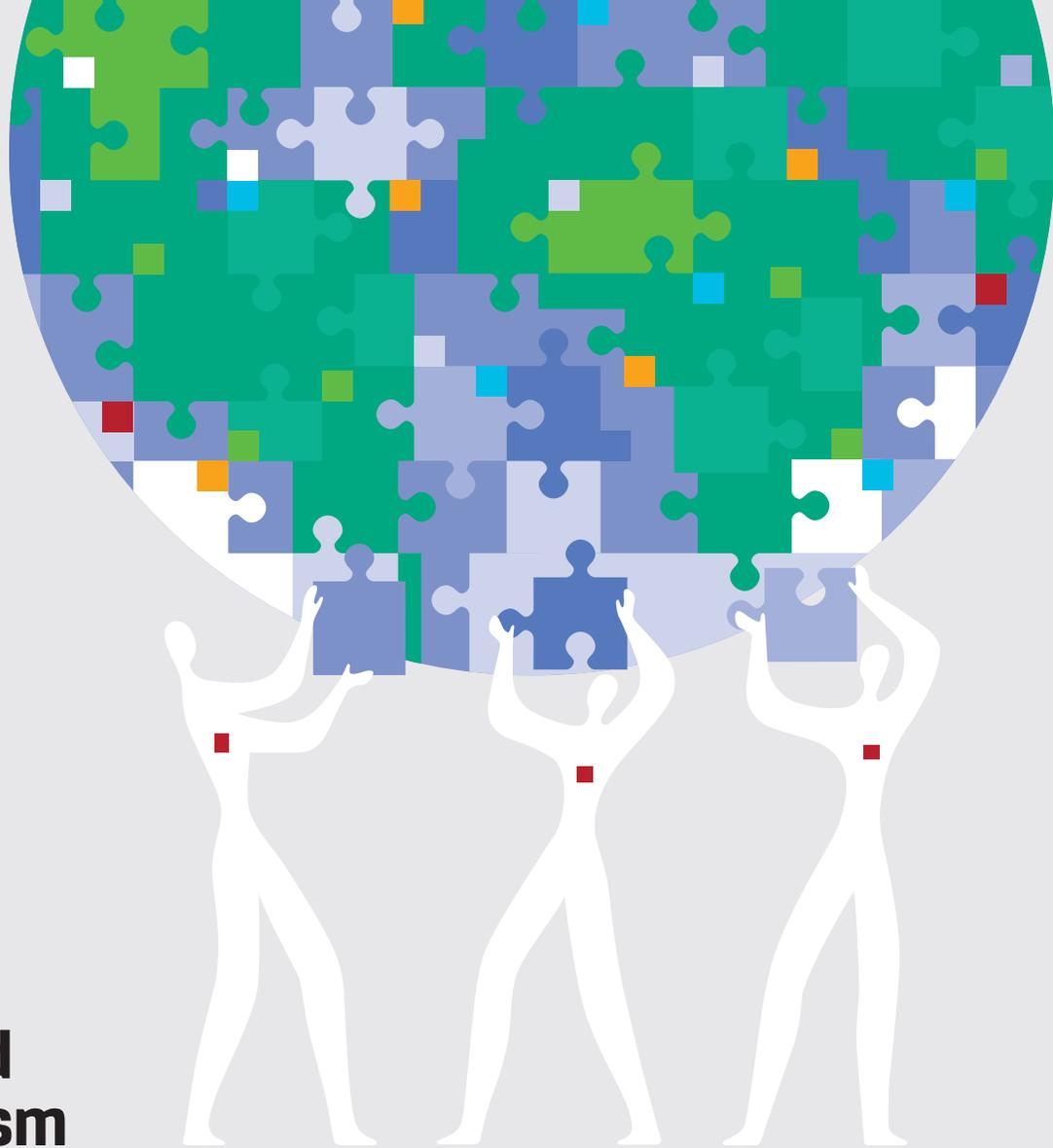
Investors that believe that their adviser always puts client interests first

29%

of Chinese investors say the top attribute in selecting an adviser is putting the client first

23%

of Chinese investors believe ethical conduct is the most important factor in choosing an adviser



8 Steps to Increasing Credibility and Professionalism

Credibility

- 1 Maintain strong brand identity and follow through on brand promises
- 2 Employ professionals with credentials from respected industry organizations
- 3 Stay focused on building a long-term track record to demonstrate competence and deliver value for money
- 4 Adopt a code of conduct to reinforce your firm's commitment to ethics

Professionalism

- 5 Improve transparency and clarity regarding fees, security, and conflicts of interest
- 6 Use clear language to demonstrate that client interests come first
- 7 Showcase your ongoing professional development to improve investment knowledge
- 8 Demonstrate your dedication to the values that clients hold dear

To learn more, visit nextgentrust.cfainstitute.org

METHODOLOGY In 2017, CFA Institute and Greenwich Associates conducted a global survey of 3,127 retail investors and 829 institutional investors, including 200 retail investors and 76 institutional investors from China. The study focused on retail investors who were 25 years or older with investible assets of at least US\$100,000 and institutional investors with at least US\$50 million in assets under management, from public and private pension funds, endowments and foundations, insurance companies and sovereign wealth funds. This summary only includes views from retail investors.



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